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SIMI

The Society of the Irish Motor Industry

Pre Budget Submission

2010

Prepared with assistance from Goodbody Economic Consultants

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Executive Summary

The Society of the Irish Motor Industry or SIMI is the trade association for the motor industry in Ireland, representing over 1,600 members in all counties in the State. Employment in SIMI member companies has fallen significantly over recent months but members still provide employment for 35,000 people spread through most towns and every county in the State. The motor industry is a key stakeholder in the economy, in terms of employment, as a substantial tax generator and collector for the Revenue and as a key player in delivery of the Environmental Agenda for the Transport Sector. The total contribution to the Exchequer from all motor related sources was over €5.5 billion in 2008.

The scale of the problems that have impacted on the trading situation in the sector have been well publicised and the situation is extremely fragile at present for many businesses. We are now operating at 30% of normal sales level and without some provision to stimulate the market current employment levels cannot be sustained. Given the severity of this crisis and what is needed is a rescue plan for the sector, however in the current fiscal climate we are seeking progress on proposals which can be on a revenue neutral basis. These are critically important if the current difficulties are to be alleviated.

What SIMI is seeking in this year's Budget:

1. **Introduction of a Scrappage Scheme in January 2010 to operate for 12 months**

To stimulate the business in order to protect jobs and to increase the Government Tax take and improve our CO_2 emissions we propose a €2,000 VRT Scrappage refund on the purchase of a new Category A, B or C car when a currently owned and road taxed ten year old car is scrapped. With new car sales at a 25 year low, with no indication of improvement and with thousands of jobs at risk, this is a crucial provision that is very badly needed to try and save employment in the sector

An extension of a Scrappage Scheme to current year Hire-Drive cars, allowing them to be sold with a scrappage refund, where the purchaser is scrapping a 10 year old car, would further help sales, tax revenues, emissions and assist the Tourism sector.

An extension of a Scrappage Scheme to include Light Commercial Vehicles, although only covering a very small number of potential sales, would support another very damaged sector and would assist small businesses to replace older vans.

2. **Introduce a VRT Refund Scheme for Exported Used Cars**

SIMI is urging the Minister to introduce a VRT Export Refund measure to refund part of the residual VRT when a used car is exported. It is proposed that a VRT credit could be allowed which could be used against the initial registration of another vehicle in due course. At present Irish dealers must face open competition from imported used cars but are prevented from exporting used cars because of the lack of a VRT refund system.

SECTION 2

SIMI Budget Proposals for Budget 2010

2.1 Scrappage Scheme

Proposal:

- **New Car Scrappage Scheme: Introduce a new scrappage scheme for a 12 month period, based on a €2,000 refund to the consumer of the VRT due on the sale of a new car where a vehicle of 10 years or older is scrapped. In order to maximise the environmental benefits of such a proposal this scrappage incentive could be restricted to vehicles in the lower emission bands.**
- **The Scheme should be extended to cover the purchase of new Light Commercial Vehicles (LCVs) where a 10 year old LCV is scrapped.**
- **The Scheme should be extended to include hire-drive vehicles first registered in 2010 against the purchase of which a Scrappage refund would also apply when a 10 year old car is scrapped.**

The introduction of a Scrappage Scheme, to run for a period of 12 months, could be done at no cost to Government; in fact past experience suggests that it would be Revenue positive. In addition it could send out a signal to consumers and financial institutions that Ireland is still open for business, creating vital economic activity in these tough economic conditions. Renewing Ireland's car fleet with new vehicles against 10 year old vehicles would also reap environmental benefits. Even in the current climate, European and US experience shows that a Scrappage Scheme can work and would generate increased tax revenues. It would stimulate new car sales, help maintain employment in the sector, boost consumer confidence and increase Government Revenue. In addition, it would replace old vehicles with new more environmentally friendly ones.

The recently published Commission on Taxation Report[14] recommends consideration of an environmentally-focused scrappage scheme, under which incentives would be given to motorists trading in cars that are over 10 years old, against low emission new cars.

SIMI believes that it is now critically important that a car scrappage scheme is introduced at this very worrying time for the Industry. In order to maximise the contribution that a scheme would make to the reduction in CO_2, the scheme would apply to vehicles in the low emissions VRT categories A, B and C. We would also underline that there may well be added Revenue benefits in extending this to Category D cars as these include family cars and contribute higher VRT and VAT receipt per vehicle. SIMI proposes that an incentive of €2,000 be given to purchasers of cars in these classes, provided that the purchaser scraps a currently road taxed vehicle aged 10 years or older.

[14] Commission on Taxation Report 2009: The Stationery Office, September 2009.

The introduction of the scrappage scheme will have a direct positive impact on the car market through an effective price reduction. It will also have an indirect impact by creation of "good news" about the market at a time when consumer confidence is low. Goodbody Economic Consultants have estimated the price reduction of a €2,000 scrappage refund for Category A, B and C vehicles at approximately 10 per cent.

In the UK there is a jointly funded scheme with Stg£1,000 Scrappage contribution from the State and a similar amount from the Industry. During the last Scrappage Scheme in Ireland the Industry made various contributions to consumers with different offers driven by the market and the desire of all players to capture a share of the business. The Industry is committed once again to making a significant Scrappage contribution per car but we believe that this will, as we saw last time, produce best results if driven by market competition. It is crucial though that the overall total discount/refund must be significantly higher than the UK as the tax inclusive sale price of cars in Ireland is substantially higher than in the UK due to the impact of VRT. The average price of a new car in the UK is €12,713 while the average for in Ireland is €19,990[15].

Light Commercial Vehicles (LGVs) are the workhorses of small businesses. At present 13.3 per cent VRT applies and the average VRT take on these vehicles is in the region of €3,400. Since 2007 there has been a very steady decline in the number of new LGVs registered while at the same time there has been a significant increase in the number of used imported LGVs. In 2009 the number of imported used LGVs has been higher than the number of new vehicles, 10,000 Used LGVs up to end of September compared to 8,000 New LGVs in the same period.

Business users are clearly challenged to reduce costs but replacement of new LGVs with used imports has a significant negative impact in relation to CO_2 emissions as we are not making the environmental gains that would be possible from new vehicles. Extension of a scrappage scheme to this sector would help support replacement of the oldest LGVs and assist small businesses. Although the numbers would be very small it would provide some interest in a sector of the business that has been shifting more and more to used imports.

There has been a serious shortage of cars in the Hire-drive sector with the supply of cars falling to a level of 5,504 up to end of June 2009, compared to 16,071 in 2008 and 18,154 in 2007. This shortage of cars is impacting on the tourism sector with tour operators and individual visitors experiencing difficulties and increasing costs as a result. To help address the supply problem in the car hire sector, the proposed Scrappage Scheme incentive should also be extended to consumers who scrap a 10 year old car and purchase a car that was registered as a car hire vehicle in 2010.

The Introduction of an environmentally focused Scrappage Scheme could, by kick-starting sales, help overcome consumer confidence barriers and thus have a spillover impact on the market as a whole. This could be especially beneficial in terms of jobs, as car retailers

[15] Data on car prices are from European Commission (June 2009) *Car Price Report at 1.1.2009*. Peter Bacon calculations based on market exchange rates on 2nd January 2009

are faced with further severe job-cutting in their businesses and they could be encouraged to minimise job loses, by signs that the market is returning to growth, however small.

An argument often raised against a scrappage scheme is that it simply brings forward new car sales, but does not provide a net increase. Even if this were true, the bringing forward of car sales is particularly beneficial at this time, as it could have a role in raising consumer and retailer confidence and thus encourage the retention of employment through this downturn. In any event, SIMI believes that scrappage schemes have lasting positive impacts on the new car market. For example, in the last scrappage scheme, consumers favoured the purchase of small vehicles. The feedback from the trade was that first-time new car buyers figured largely in this group. In other words, motorists traded up to a new car for the first time. This expanded the group of first time purchasers, consumers who would not otherwise have purchased a new car.

Opponents of incentive schemes such as scrappage schemes may also argue that there are dead-weight losses associated with them; in other words, that a VRT repayment is made to some buyers who would have bought anyway. This argument carries little weight in the current environment where purchases are at an all-time low, in the context of the last forty years and there is virtually no likelihood of any owner of a ten year old car going out in January next to purchase a new car.

Finally, the argument is made that new car purchase does not add to employment in Ireland, but rather creates jobs abroad where the car is manufactured. This ignores the fact that with automated production, the labour intensity of car manufacturing is relatively low, whereas distribution and retailing of vehicles is a more labour intensive activity. Every 1,000 cars sold requires an input in distribution and retailing in Ireland of about 125 full-time equivalents. The Irish Motor industry normally employs over 45,000 people in Sales, Service, Repair and various administration jobs. There is a direct relationship between new car sales and employment as service, repair and preparation of trade-in vehicles all follow from a new car sale. There is roughly one job for every 3.75 new cars sold in the Motor Industry so that over time the employment level will increase or decrease as sales volumes alter. This is not an immediate response but adjusts over a period of years. Car sales in Ireland have reduced from 186,000 in 2007 to 152,000 in 2008 and will finish 2009 at 57,000. At the same time employment has fallen by 10,000 in the last 18 months. Indications for 2010 are no better than this year and sales at this level cannot support even the current reduced level of employment. Even seeking to hold onto key staff, the Industry will face losing somewhere in excess of another 10,000 jobs in 2010 if there is no pick-up in new car sales.

Scrappage Scheme –History in Ireland – It works

The previous scrappage scheme operated from July 1995 until December 1997. During that period 64,500 cars were scrapped and replaced by new cars. The scheme was beneficial in that it:

- Increased employment in the motor industry;
- Increased Government tax revenue from cars without raising tax rates;

- Benefited the consumer by enabling the replacement of older vehicles with new ones;
- Benefited the community at large by introducing safer more roadworthy vehicles into the fleet; and
- Contributed to a cleaner environment by introducing vehicles with better environmental characteristics.

The previous scrappage scheme operated from July 1995 until December 1997. At the time the scheme was introduced there were some 230,000 cars that were at least 10 years old, representing 23 per cent of the car fleet. On the introduction of the scrappage scheme the proportion of cars 10 years and older began to decline. The subsequent high level of new car sales reinforced the trend established by the scrappage scheme, with the proportion of cars ten years an older falling a very low level of 13.6 per cent in the year 2002. From the evidence of the last six years, the proportion of older cars has been steadily rising again. There are now some 346,000 cars ten years and older, which is 110,000 more than when the scrappage scheme was introduced in 1995. In addition, we now have in place an End of Life Vehicles Regulation, which provides for the environmental recovery, reuse and treatment at Authorised Treatment Facilities spread throughout the country, of any that might be scrapped under such a scheme.

Scrappage Scheme – Protect employment; increase Government Revenues; reduce Government Expenditure

While the last Scrappage Scheme increased employment in the motor industry, its introduction today is a vital component maintaining the jobs in the sector. As per the CSO Quarterly Statistics on Persons in Employment, employment in the motor industry at the end of 2007, a year in which new vehicle sales exceeded 180,000 was 45,100. By the end of June 2009, car sales had collapsed by 70% from 2007 levels and employment in the sector reduced by 22% or 10,000 to 35,100. If car sales remain at the current levels, we estimate that an extra 10,000 jobs are at risk in the motor industry. A Scrappage Scheme resulting in increased car sales would help maintain the current level of employment, protect Government PAYE/PRSI income and save on Social Welfare Payments. Based on an average Motor Industry salary of €40,000 per annum, protecting these 10,000 jobs would safeguard the Government PAYE and PRSI take to tune of €148 million, while at the same time saving (based on standard weekly Welfare payment) the Government €105 million in Social Welfare payments.

Scrappage Scheme – Stimulate Sales; increase Government Revenues.

From a Government Revenue viewpoint each new vehicle sold (in VRT bands A/B/C) will deliver an average of €6,927 in Vat and VRT (€3,204 in VAT; €3,723 in VRT), compared to an average of just €2,655 in VRT on a used import in the same bands (VAT is paid to UK Revenue). If a new car Scrappage Scheme is introduced, it will on average result in a net tax take of:

- VAT €3,204
- VRT €3,723
- Less Scrappage refund €2,000

- Net Revenue gain €4,927 If one additional car avails of Scrappage
- Net Revenue gain €49.3M If 10,000 additional cars avails of Scrappage
- Net Revenue gain €98.5M If 20,000 additional cars avails of Scrappage
- Adding this to potential PAYE/Welfare savings could place the Exchequer better off by €350 million.

Scrappage Scheme – Stimulate Sales; reduce Ireland's CO2 output.
A Scrappage Scheme would also be beneficial from an environmental viewpoint. Emissions from new cars have been reducing for a number of years.

Because of the proposed targeting of the Scheme on the more CO_2 efficient vehicles, the impact on CO_2 emissions will be very substantial. The assumption may be made that the CO_2 rating of vehicles more than ten years old is 180g/km. These will be replaced by vehicles with a rating of 130g/km, a saving of 50g/km per car. Assuming an average vehicle kilometres of 20,000 km, each 1,000 vehicles in the scheme would save 1,000 tonnes of CO_2 annually. This is a minimum estimate of the savings that would accrue. This is because the fuel efficiency of cars declines with their age. Thus, ten year old cars will currently have a poorer CO_2 performance than 180g/km, which was their performance level when initially purchased. In Peter Bacon's Strategic Review of the Motor Industry he notes "One of the most attractive savings would be in terms of emissions. It is estimated that by replacing a 10 year old car with a new car will cut emissions by around 50g CO2 per km."

It is sometimes argued that such savings are offset by the additional environmental emissions in the manufacture of vehicles. However, a number of sources indicate that emissions embodied in car manufacture are a fraction of the lifetime emissions of the vehicle. Research carried out by UC Berkley (2005) based on 20,000 Kms per year over 10 years (covering mining, parts production, assembly, transportation, servicing, usage and end of life) estimated environmental costs for a generic car:

Material Production	7.51%,
Manufacturing	4.34%,
Operation/Use	86.87%,
Maintenance/Repair	1.04%,
End of Life	0.24%

Research also indicates that unless there is a significant improvement in fuel efficiency scrapping cars does indeed result in increased life-cycle-energy use and CO2 emissions. Replacing scrapped cars with new cars producing significantly lower CO2 emissions in usage is a very different proposition. An environmentally focused Scrappage Scheme would see cars producing over 180Gms/Km (and the real output of these vehicles is likely to have deteriorated to much worse than that) being replaced with those likely to average 130Gms/Km, a significant improvement

If the concept of scrapping a 10 year old car is considered wasteful such cars could be exported to a country with an older car fleet. An environmentally focused scrappage scheme with an average saving of 50Gms/Km over the scrapped car would deliver significant CO2 savings, over and above the CO2 costs of production in 2½ years. 10,000

cars on a scrappage scheme would save 10,000 tons of CO_2 per annum thereafter. The higher fuel efficiency of lower emission cars will also reduce our fuel demand and reduce fuel transport costs.

Scrappage Scheme – Stimulate Sales; improve safety on our roads.
New cars are far safer for drivers, passengers, other road users, cyclists and pedestrians than the old cars that they replace. ABS brakes, ESP, Power Steering etc have contributed to a reduction in road accidents. Improved vehicle safety is a major benefit of a Scrappage Scheme.

COST/BENEFIT ANALYSIS OF SCRAPPAGE SCHEME

Cost/Benefit Analysis of Scrappage Scheme based on 10,000 sales		
a) Assuming it only results in advanced sales		
COST: 10,000 cars; €2,000 scrappage		**(€20.0 million)**
BENEFIT		
▪ Interest on advance VRT/VAT	€2.5 m	
▪ Employment – 2,000 jobs saved*	€49.3m	
▪ Total Benefit		**€51.8 million**
BENEFIT TO STATE OVER COST		**€31.8 million**
Note (1) The State would break even if 10,000 cars resulted in saving 811 jobs. (2) If it resulted in 20,000 sales and 4,000 jobs saved, State net Benefit is €103 m		
b) Assuming it results in incremental sales		
COST: 10,000 cars; €2,000 scrappage		**(€20.0 million)**
BENEFIT		
▪ Additional VAT/VRT	€69.0 m	
▪ Interest on VRT/VAT	€2.5 m	
▪ Employment – 2,000 jobs saved*	€49.3m	
▪ Total Benefit		**€120.8 million**
BENEFIT TO STATE OVER COST		**€100.8 million**
Note: If it resulted in 20,000 sales and 4,000 jobs saved, State net Benefit is €202 m		

*In reality most of the jobs currently at risk in the sector have a very good chance of being retained if we see any real improvement in the trading environment.

International Experience.
In addition to Ireland's positive experience from Scrappage, a number of European countries as well as the US, have introduced successful schemes. According to the ACEA,

twelve EU countries currently have fleet renewal programmes in operation that incorporate market incentives and scrappage schemes. An additional four countries are in discussions over the implementation of such schemes including, Belgium, Poland, Hungary and the Czech Republic. Table 8 summarises the details of the scrappage schemes in operation across Europe.

Details of the Schemes

The incentives offered to customers under the schemes vary significantly across different countries. Romania has the lowest incentive for scrappage (around €900) while Italy has incentives of up to €5,000 for passenger cars and €6,500 for light commercial vehicles. However, the Italian scheme combines a basic scrappage incentive of €1,500 with an additional purchase incentive of between €1500-€3500 for cars running on CNG, electricity, hydrogen or LPG. Spain's incentive is an interest free loan to customers for values up to €10,000. It had previously offered scrappage of €2,000 on vehicles 10 years and older, with manufacturers paying 50 per cent of the incentive; however this expired in May 2009. A number of countries have linked their schemes with initiatives by dealers and vehicle manufacturers.

The majority of countries offer incentives based on reduced CO_2 emissions. The level of emissions allowed under the schemes varies from one country to another. Of the countries focused on CO_2 emissions, France is the least stringent with maximum emissions of 160g/Km allowed for new cars and no CO_2 requirement on light commercial vehicles. Italy has a more stringent approach with cars required to meet a minimum of Euro 4 standards and maximum emissions of 130g/Km for diesel cars and 140g/Km for other fuels. Austria and Germany require new cars to reach Euro 4 standards while Romania, Slovakia, UK and the Netherlands do not have any CO_2 requirements. Cyprus requires new cars to consume a maximum of 7 litres/100Km with greater incentives for cars consuming 5 litres/100Km and thus, indirectly aims to reduce CO_2 emissions.

The vehicle age required to qualify for incentives also varies from country to country. Cyprus requires vehicles to be more than 15 years old, while Austria sets the standard at 13 years or more. The majority of countries, including France, Romania, Spain, Luxembourg, Slovakia and the UK set the standard at 10 years or more, whereas Germany and Italy set it at 9 years or more. Both Portugal and the Netherlands split their criteria. Portugal offer €1,000 for cars over 10 years and €1,250 for cars over 15 years. The Netherlands offer between €750 and €1,750 for vehicles depending on age.

Table 7: Scrappage Schemes in the European Union

	Value of Incentive	Vehicle Age	Focus on CO_2 Emissions	Purchase of 2nd Hand Cars Allowed?
Austria	€1,500	>13yrs	No	No
France	€1,000	>10yrs	Yes	No
Germany	€2,500	>9yrs	No	Yes – up to 1 yr
Italy	€1,500-€6,500	>9yrs	Yes	No
Portugal	€1,000 or €1,250	>10yrs or >15yrs	Yes	No
Romania	c. €900	>10yrs	No	No
Spain	0% fin. to €10,000	>10yrs or >250k	Yes	Yes – up to 5 yrs*
Luxembourg	€1,500-€1,750	>10yrs	Yes	No
Cyprus	€675-€1,700	>15yrs	Indirectly	No
Slovakia	€1,000-€2,000	>10yrs	No	No
UK	€2,000	>10yrs	No	No
Netherlands	€750-€1,750	>9yrs & >13yrs	No	No

Source: ACEA July 2009

*Note: Old car must be 15 years old or more

The majority of countries only allow for new cars to be purchased under their schemes. However, the German and Spanish schemes allow for the purchase of used cars up to certain ages. In Germany, used cars up to one year old may be bought under the scheme. In Spain used cars up to five years old may be bought, once the car being scrapped is a minimum of fifteen years old.

Impacts of the Schemes

An assessment of the contribution of these schemes to increasing car sales must recognise that the prevailing economic conditions mean that car sales are in decline. Scrappage schemes will prove to be successful, if they simply arrest the rate of decline in the market. Where market growth is observed since the introduction of a scheme, this is strong evidence of a significant scheme impact.

- Germany: The Car Scrappage Scheme was introduced in February 2009 and will operate until the 31st of December 2009. The German government has set aside €1.5 billion to finance it. It has proven very successful to date, with approximately 1.7 million applications received in the first 7 months of the scheme. New car registrations for September 2009 are 21% higher than September 2008 and 26% higher year on year. As already mentioned, the scheme is ongoing.
- France introduced a scrappage scheme in December 2008 which is also ongoing, and which will be in place until the 31st of December 2009. Sales for September 2009 are 14% higher than for September 2008. Sales for the year to date (January to September) are 2.4% higher than the same period in 2008.

- UK: The UK Car Scrappage scheme came into effect on the 18th of May 2009 with the UK Government contributing £300m to fund the scheme thereby allowing for up to 300,000 sales. The scheme will terminate on the 28th February 2010 or when the funding has been used up. Sales for the year to date (to September) are 15.5% down on the same period in 2008 but the impact of Scrappage has been immediate with car sales rising for the first time in July 2009 since April 2008. September 2009 registrations are 11.4% higher than September 2008. The Society of Motor Manufacturers and Traders have attributed the rise to the scrappage scheme. The scheme is also quoted as contributing to the 13.5 per cent jump in car manufacturing. It is also bringing about significant environmental benefits as new cars purchased under the scheme have average emissions of 134g/km compared to the old cars being scrapped which have average emissions of 179g/km. This is a reduction in CO_2 emissions of 25 per cent.
- Austria introduced its car scrappage scheme in April 2009. It is due to operate until the end of December 2009. Current trends indicate that the €45m set aside for the scheme by the Austrian Government is likely to be exhausted at this stage. Cumulative car sales for the year to date (January to September) were 6.7% up on the same period in 2008. Car sales in September 2009 were 17.9% higher than in September 2008.
- Italy: The Italian scrappage scheme was introduced in February 2009 and is due to terminate in December 2009. Car sales for the year to date to June were -10.7 % down on the first six months of 2008 but Scrappage has begun to turn this around with year to date sales down only -5.9% on the year to September. Sales for the month of September are 6.8% up on September 2008.
- Portugal: The car scrappage scheme in Portugal came into operation in January 2009 and is due to continue until the 31st of December 2009. Car sales figures for the first six months of the year were -36.1% lower than the same period in 2008. This has begun to improve with September down by only -12.5% and the year to September cumulative registrations have also improved to -30.4%.
- Spain introduced two fleet renewal initiatives, an interest free loan and a €2,000 scrappage scheme. Both schemes were introduced in December 2008. The scrappage scheme expired on the 18th of May 2009 and the loan incentive is due to terminate on the 1st of October 2010. In June 2009 car sales were -15.9% lower than car sales in June 2008, and cumulative sales for January to June were down by -38.3% when compared to the same period in 2008. Sales in September were up 18% while the cumulative total has improved to -28.6% for the January to September 2009 period compared to 2008.
- Slovakia's current scrappage scheme has been in operation since April 2009 and is due to terminate on the 31st of December 2009. Car sales recorded in the month of June 2009 were a notable 57.4 per cent higher than sales in June 2008 and the year to date figure up to end of September is 19.7% up on 2008.
- The Netherlands scrappage scheme was launched in April 2009 and will run until the funds provided by the government are exhausted. The Scrappage Scheme has stemmed the fall in car registrations. Car sales for the month of June were -25.6% lower than the same period in 2008, and cumulative sales January to June were

26.1% lower than the first half of 2008. September has seen some slight improvement with sales down -17.6% for the month and -24.8% down for the first nine months of the year.

It is clear that some car markets have experienced significant growth since the introduction of their scrappage schemes while for other countries, the impact of the schemes has been more a case of reducing the rate of decline in the market by working to offset the underlying market contraction. Scheme design and budgetary limits may be factors determining the success of schemes.

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7th October 2009

Pre-Budget Submission

Dear Minister,

I am pleased to enclose for your consideration a pre-budget submission from the Car Rental Council of Ireland.

The Car Rental Council of Ireland is the representative trade association for the car rental industry in Ireland and is a member organisation of the Irish Tourism Industry Confederation (ITIC).

Yours Sincerely

Paul Redmond
Chief Executive

09/0421/MF
Mr John Davy.
Referred please
Patricia Scanlon
Private Secretary
Minister for Finance
FU
12/16/09

Car Rental Council of Ireland

BUDGET 2010

The Car Rental Council of Ireland is the representative trade association for the car rental industry in Ireland. The Car Rental Council has 20 member companies. All the major international car rental franchises are represented in the Irish market as well as some independent Irish operators.

A buoyant car rental is vital in ensuring a geographical spread of tourism throughout the entire country, especially into rural and remote areas where public transport facilities are limited. The remoteness of natural beauty spots and popular tourist locations make car hire a vital part of the tourism infrastructure. A significant shortfall occurred in the supply of vehicles to the car rental fleet during July and August 2009. This shortfall prompted an analysis of the impact of these shortages on tourism. The analysis highlights the forecasted impact on tourism revenues in 2010 unless corrective action is taken to increase the supply of vehicles to the car rental fleet. The analysis was submitted to Tourism Ireland in July 2009 and is included as part of this submission. ***(Updated with registration data for Aug and Sept)***

Due to the peak season nature of the Irish Tourism Industry, car rental shortages is not a new problem and was last addressed by Government in 1992 and 1993. Copies of extracts from the Dail debates of the time are included in this submission as illustrative of the importance of Government intervention to help solve the problem.

The Council propose that the following Budget measures are adopted:

- Incentivise consumers to trade in older vehicles against 2010 car hire registered vehicles in order to reduce the risk for Car Dealers and Finance Houses associated with the traditional car rental buy back model. A focussed car scrappage scheme as suggested by the Commission on Taxation (Part 9.9) would not only meet taxation and environmental objectives but also protect tourism revenues if directed at the car rental fleet.

Car Rental Council of Ireland

Car Rental Fleet Shortages -Impact on Tourism

INTRODUCTION

The objective of this report is to highlight a significant shortfall in the supply of vehicles to the car rental fleet for 2010. The fleet shortages being experienced in 2009 which are currently the subject of discussions between Tourism Ireland and German tour operators characterises the reaction of the travel trade to capacity shortages. In the early 1990's a similar situation led to stop orders being placed on self drive holidays to Ireland in the peak season.

ECONOMICS OF SUPPLY

The car rental market in Ireland continues to peak in July and August, Easter and Christmas with mid season conditions occurring in May June and September. The short term vehicle supply requirements impose economic conditions on the industry that do not occur in many other countries. It is simply not possible to procure vehicles on a short term basis at costs that allow for competitive car rental rates to be provided to tourists during the peak season. The Vehicle Registration Tax Refund (VRT) scheme, which has operated since 1993 and the Bord Failte grant system that preceded it were designed to ensure sufficient cars could be supplied to the car rental market at costs that supported sustainable car rental rates. The residual values and vehicle depreciation assumptions that underpin the VRT refund rates were significantly eroded in 2008 and are unlikely to be restored for some time.

VEHICLE SUPPLY 2009 (Table 1)

The total number of new cars supplied to the car rental industry in Ireland looks set to decline by 66% in 2009. At the end of June, 5504 new vehicles were supplied compared to 16,071 in 2008 and 18,154 in 2007. With such a drop off in numbers of new cars supplied to the car rental market, car rental companies augmented their fleets in 2009 by retaining 2008 and 2007 stocks or securing similar vehicles from unsold stocks in Car Dealerships throughout the country. Even with this fleet augmentation and allowing for the expected reduction in tourism numbers estimated at 9% by Tourism Ireland, significant shortages occurred during the peak tourist season in July and August. The 2009 car rental supply problems have been caused by the serious disruption in the domestic used car sales market. Many used cars remained unsold after the car rental defleeting arising from the 2008 tourist season. A high proportion of these vehicles had a higher book value than similar new vehicles, arising from the market volatility caused by the changes in the Vehicle Registration Tax regime introduced in July 2008. The normal supply of new cars for the traditional short term buy back programme from Car Dealerships in 2009 simply dried up due to the 2008 experience of Car Dealers and the availability of funding.

VEHICLE SUPPLY 2010

The legacy of the 2008 experience will continue to hinder the supply of vehicles to the car rental market in 2010 unless incentives are provided to the market participants to restore supply. The traditional economic model of supply, the buy back programme, damaged by cost and funding issues in 2009 will be further damaged in 2010 by the one third reduction in VRT relief for car rental operators. Even with an estimated further decline of 5% in visitor numbers in 2010 the demand for car rental in 2010 will still be seriously in excess of the projected number of cars the Council anticipates will be available to the car rental industry in 2010 unless the supply problems experienced in 2009 are resolved. The Council estimates that the 2010 fleet size will be in the region of 45% of the 2008 fleet size unless corrective action is taken.

FLEET PROFILE (Table 2)

The car rental fleet in 2008 included 18,971 new vehicles and was augmented by a further 9,000 vehicles rolled over from the previous year or sourced from the motor industry. 1,300 of this fleet were automatics mainly rented to US visitors. The profile of the 2009 fleet at peak season is estimated at 6250 new vehicles (66% less than 2008) and a further 11,250 pre 2009 registered vehicles of which 900 are automatics. Automatics are needed mainly for North American visitors. The total fleet therefore will operate with over 10,000 less vehicles available for hire during 2009, a reduction of 37% on the 2008 fleet. There was no spare capacity in August 2008 and that fleet size therefore represents the optimum performance of supply meeting demand. The Council estimates that without any interventionist measures being adopted, the fleet size will deteriorate further in 2010 to 45% of the 2008 fleet. This projection assumes the same number of new cars as supplied in 2009 is supplied in 2010 but a reduction in pre 2009 registered vehicles occurs. The Irish car market in 2010 is likely to be characterised by low demand for new cars and reduced stocks of used cars. There will also be a significantly reduced supply of used vehicle imports from the UK. These factors in conjunction with the normal replenishment criteria of mileage, maintenance costs and product reliability will greatly limit the use of pre- 2009 cars in the 2010 car rental fleet.

FLEET SHORTAGES (TABLE 3)

Shortages of rental cars occurred primarily in July, August and public holiday week ends in 2009 with shortages of automatics for US visitors spread over the May to September period. Allowing for a decrease in demand arising from reduced visitor numbers the number of visitors per car will deteriorate from 256 in 2008 to 375 in 2009 and unless corrective action is taken will decrease to 500 in 2010. The proportionality for automatics for US visitors will deteriorate from 773 visitors per car in 2008 to 1017 in 2009 and unless corrective action is taken to 1241 in 2010. This effectively means that shortages will occur throughout the May to September period in 2010 and as car rental operators endeavour to recover higher fixed unit costs, prices are likely to be dramatically higher. With business activity at almost half the 2008 level, car rental rates in 2010 could be of the order of 50% higher than 2009.

OPTIMUM FLEET SIZE

The Council estimates that to reach the optimum performance levels of 2008 and allowing for reduced demand, the number of vehicles required for the car rental fleet in 2010 is 24,200, of which 1,100 need to be automatics. This represents a fleet reduction of 14% of the 2008 fleet. Based on the forecasted fleet profile the total requirement for new cars to be supplied to the car rental fleet in 2010 is 17,250.

TOURISM EARNINGS and EXPENDITURES (TABLE 4)

The Council has used CSO data on Tourism & Travel and Tourism Ireland's car rental research data in compiling its fleet analysis and forecasts. While the forecasted supply scenario for 2010 is deeply concerning to the car rental industry, its impact on tourism earnings and expenditures is likely to be quite serious. Of course if visitors simply find alternative means of transport in response to the predicted shortages, the problems may be limited. The more likely scenario however is that visitors faced with either non availability of cars to rent or prohibitive prices will simply go elsewhere.

According to Tourism Ireland research, 21% of visitors rent cars, of which 27% are North Americans. The potential tourism earnings and expenditure from the car rental market segment, allowing for the decline in visitor numbers will be in the region of €1000m in 2010.

Noting that CSO earnings and North American expenditure data excludes air fares paid to Irish carriers and also noting that car rental customers according to TIL research spend 10% more on average, we estimate the total tourism spend from North American car renters in the May to September period when vehicle shortages are likely to occur will be in the region of €174m. With decline in the forecasted stock of automatics for US visitors we estimate that €22m of this €174m will be lost unless corrective action is taken.

Applying a similar model to UK, European and other visitors, but allowing for a reduced level of individual spending pattern based on CSO data, we estimate that €46m of the May to Sept spend of €367m will be lost. Therefore vehicle shortages in 2010 will result in a loss of total tourism earnings and expenditures of €68m.

VEHICLE TAXATION

The VAT and VRT on an average new car is over €8000. In 2010 the VRT refund payable to approved rental operators will be reduced by one third. The net tax revenue on the 17,250 new cars that we estimate will be required for the 2010 car rental fleet due to the need to replenish the fleet would be in the region of €130m.

CONCLUSION

Unless corrective action is taken to unblock the supply chain of new vehicle s to the car rental fleet in 2010, tourism earnings and expenditure of €68m will be lost and the State will forego vehicle tax revenues of €88m (17,250 versus 6,250 cars)

RECOMMENDATIONS

It is unlikely that any single measure can be devised to resolve the vehicle supply issue for 2010 and we therefore propose a series of measures to incentivise the market participants:

- Incentivise consumers to trade in older vehicles against 2010 car hire registered vehicles in order to reduce the risk for Car Dealers associated with the traditional car rental buy back model. The cost of any such scrappage incentives will be self financing by the VRT and VAT revenue arising. Each new vehicle sold generates on average €8,115 in Vat and VRT (€3,369 in VAT; €4,746 in VRT). If consumers were incentivised to scrap older cars in exchange for purchasing a 2010 registered hire drive vehicle between September and December 2010, it will on average result in a net tax take of:
    - VAT €3,369
    - VRT €4,746
    - Car Rental (revised) VRT refund and scrappage refund: (€2,750)
    - Net Revenue gain: €5,365 for every 2010 hire drive vehicle exchanged.

In a climate of uncertain consumer spending behaviour which is likely to persist in 2010 the opportunity arises to secure tax revenues, secure tourism earnings and meet environmental objectives.

TABLE 1

NEW CARS REGISTERED TO CAR RENTAL FLEET

Month	2009	2008	2007	2006
January	415	1,614	1,259	928
February	765	3,027	2,429	2,306
March	1,003	5,167	5,497	4,581
April	717	2,111	2,345	3,497
May	1,391	2,358	4,406	4,390
June	1213	1,794	2,218	3,130
July	716	2275	2,839	3,039
August	99	224	501	788
September	140	173	403	359
TOTAL Jan -Sept	6459	18743	21897	23018
October		45	362	384
November		115	205	178
December		68	164	325
Annual Totals:		18,971	22,628	23,905

TABLE 2

CAR RENTAL FLEET PROFILE

	2006	2007	2008	2009	2010 Forecast
New Car Registrations	23905	22268	18971	6250	6250
Previous Year Stock	6500	7000	8500	9250	5500
Ex Garages-Short Term	500	500	500	2000	750
Total Fleet at Peak	30905	29768	27971	17500	12500
Automatics			1300	900	700
Manual			26671	16600	11800

The 2010 forecast assumes no corrective measures are implemented

Table 3

RATIO OF VISITORS TO CAR RENTAL VEHICLES	CSO Data	Tourism Irl Forecast (less 9%)	Less 5% on TIL 09
	2008	2009	2010
CSO Data: Overseas Visitors ('000)	7839	7133	6777
Britain ('000)	3872	3524	3347
Europe ('000)	2610	2375	2256
Other ('000)	352	320	304
Sub Total: UK + EU + Others ('000)	6834	6219	5908
Fleet capacity	26671	16600	11800
Ratio -UK+EU+O visitors to vehicles	*256*	*375*	*500*
North American Visitors ('000)	1005	915	869
Fleet capacity-automatics	1300	900	700
Ratio -Nth American visitors to automatics	*773*	*1017*	*1241*

Table 4

	2006	2008	2009 (-9%)	2010 (-5%)
	000's	000's	000's	000's
Overseas Visitors	7709	7839	7133	6777
Car Rentals @21%	1619	1646	1498	1423
Non US Visitors (73%)				1039
US Visitors (27%)				384

<u>Non US Tourism Earnings & Expenditure</u>

Non US Visitor spend €663 per person

Total spend 2010 – 1,039,000 x 663 = €688m

55% of spend May – September (when major shortages occur) – spend € 367m

Fleet reduction is 28% - effect is that one in eight renters goes to other markets – 12½% - <u>€46m</u>

<u>North American Tourism Earnings & Expenditure</u>

North American Visitors spend €822 per person

Total spend 2010 – 384,000 x €822 = €316m

55% of spend May – September (when shortages occur) – spend €174m

Fleet reduction is 29% - effect is that one is eight do not travel or go to other destinations - 12½% loss - <u>€21.7m</u>

Total loss <u>€68m</u>

All above figures except fleet numbers are based on CSO data and Tourism Ireland research.